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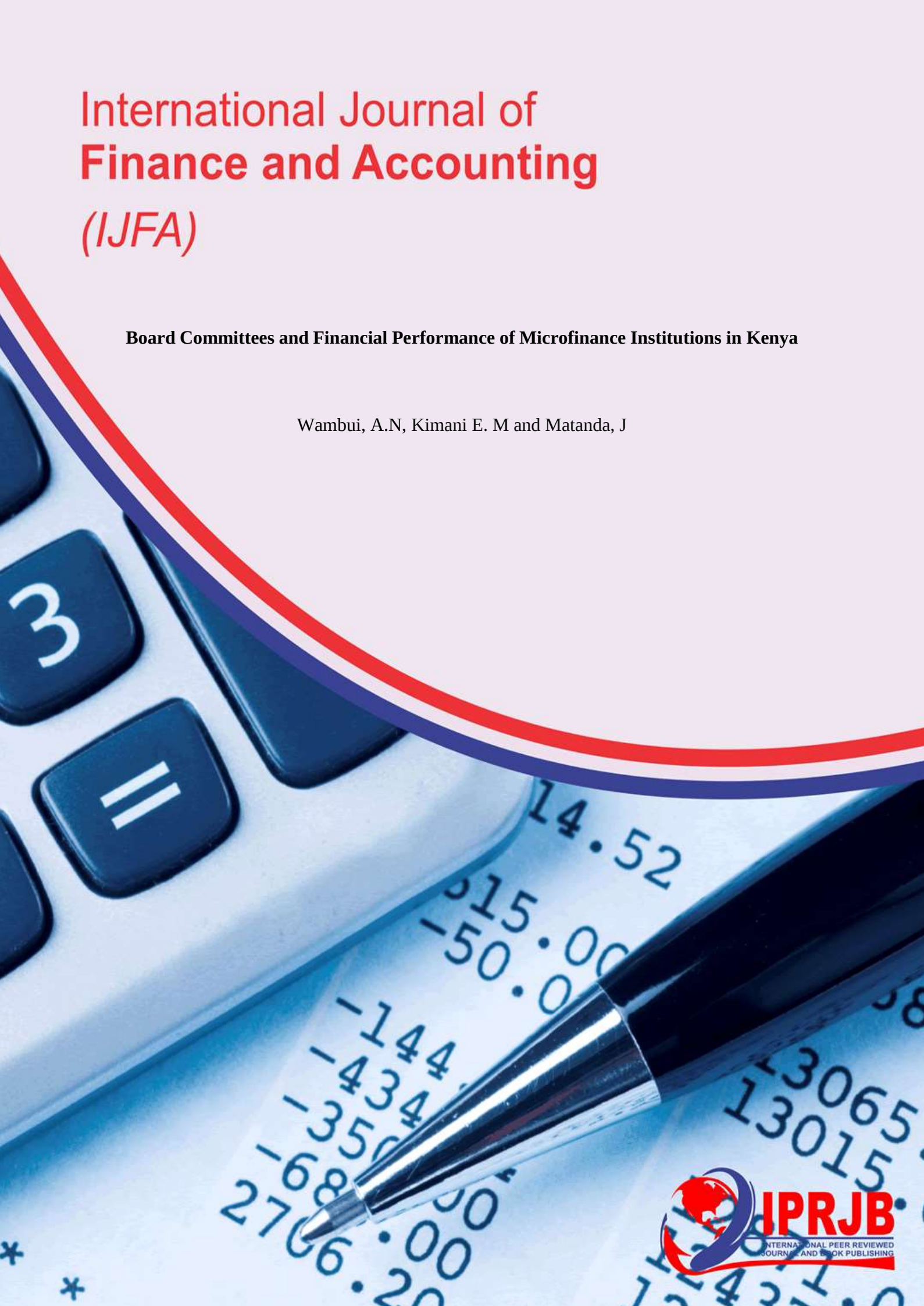

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Board Committees and Financial Performance of Microfinance Institutions in Kenya

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Abstract

Purpose: The financial performance of microfinance institutions is a significant aspect in assessing the viability and success of MFIs, with Return on Assets as a measure of the efficiency of these institutions. This research sought to evaluate the effect of board committees on the financial performance of MFIs in Kenya, formulated based on resource dependence theory.

Methodology: The study used a descriptive research design and a census technique in which all the 23 registered MFIs in Kenya were analyzed. Secondary data was collected from annual audited financial statements, annual reports, and institutional and regulatory documents from 2019 to 2023 using a secondary data collection sheet. The analysis entailed a panel regression analysis to find the correlation between board committees and financial performance. Panel regression results indicated that board committees have a significant positive effect on the financial performance of MFIs in Kenya.

Findings: The findings revealed that 55.10% of financial performance among Kenyan MFIs can be explained by board committees.

Unique Contribution to Theory, Practice and Policy: The study recommended that the CBK, in collaboration with the Association of Microfinance Institutions, continue strengthening board committees by enforcing compliance audits and governance training for directors. Policymakers should introduce governance rating systems for MFIs to benchmark board effectiveness and encourage adherence to best practices. The government and AMFI should support capacity-building programs that train MFI board members on ethical leadership, digital transformation, and risk management. Finally, board policies should be aligned with international best practices, such as the OECD Principles of Corporate Governance and the Basel Committee's guidelines on banking supervision, to ensure that Kenyan MFIs remain competitive and sustainable.

Keywords: *Board Committees, Financial Performance, Microfinance Institutions*

INTRODUCTION

Financial performance is an essential element that determines the sustainability and efficiency of microfinance institutions (MFIs). It measures how well an MFI manages and deploys its available resources towards the realization of its profit goals and also the accomplishment of its social mandate (Orichom & Omeke, 2021). The financial performance assessment is usually achieved by using many ratios, one of which is Return on Assets (ROA), calculated by dividing net income by total assets. Increased ROA is a sign of a higher efficiency of assets when a business generates profit, thus signifying good financial health. Research has also indicated that profitable MFIs are more likely to remain sustainable during an economic downturn, improve the range of services offered, and extend services to more people (Mia et al., 2022).

The financial performance of a firm can be influenced by several governance mechanisms, one of which is the effectiveness of board committees (Abebe, 2022). Financial performance is commonly measured using Return on Assets (ROA), which reflects how efficiently an institution utilizes its assets to generate profits. For microfinance institutions (MFIs), ROA is particularly important because it indicates how well management allocates financial resources while maintaining loan portfolio quality and operational efficiency. In this context, board committees play a crucial role in supporting the board's oversight responsibilities and ensuring that institutional assets are managed prudently. According to the Code of Corporate Governance Practices for Issuers of Securities to the Public (2015) and the Central Bank of Kenya (CBK) Corporate Governance Guidelines for Microfinance Institutions, boards are required to establish specialized committees such as audit, risk, and remuneration committees to strengthen internal governance structures. Board committees enhance governance and financial stability by performing specific oversight roles that the full board may not be able to address in detail (Ararat & Yurtoglu, 2021; Boachie, 2023). Through committees such as audit and risk management, MFIs are able to monitor financial reporting accuracy, compliance with regulatory requirements, and the overall integrity of internal control systems. These committees are particularly important in overseeing asset quality, including loan portfolio management, provisioning policies, and credit risk exposure. Effective committee oversight helps prevent deterioration in asset quality that could lead to poor financial outcomes, including negative ROA levels when loan defaults and non-performing assets increase. Furthermore, committees play a key role in ensuring adherence to regulatory standards, improving transparency, and identifying potential operational or financial risks at an early stage (Nekhili et al., 2021). When properly coordinated, board committees also contribute to strategic planning and policy formulation, which enhances institutional sustainability and profitability (Kyere & Ausloos, 2021). In the Kenyan regulatory environment, therefore, board committees serve as an essential governance mechanism that strengthens oversight, safeguards asset quality, and ultimately supports improved financial performance in MFIs.

Statement of the Problem

Financial performance is an important factor in understanding the viability and efficiency of MFIs as it indicates the extent to which these institutions are profitable and socially responsible to the targeted clients and communities (Minai et al., 2021). Return on Assets (ROA) is the most commonly used measure in determining the efficiency of MFIs on their assets, and MFIs cannot achieve sustainable and healthy financial performance needed to enhance financial inclusion and manage risks resulting from lending for the long-term without it (Adhikari et al., 2024). Despite their crucial role in the economy, CBK (2024) has reported the declining and

fluctuating performance in the sector over time as measured by return on assets (ROA). For instance, in 2020 and 2021, MFIs recorded a negative ROA of -0.2% and -0.3%, respectively. In 2022, there was a slight improvement in ROA to 0.5%. However, the ROA dropped again to 0.2% and -0.1% in 2023 and 2024, respectively (CBK 2020 – 2024). These financial instabilities, if unaddressed, could lead to liquidity constraints, reduced access to financial services for vulnerable populations, operational inefficiencies, and potential closures of MFIs. Despite the social investment in board committees as an effective tool in enhancing financial performance, few studies have been done to establish their role, particularly in the Kenyan microfinance institutions. Other empirical studies conducted by Muithya and Muathe (2020) & Okech and Njeri (2023) have associated board mechanisms, including the board of committees, as factors that determine financial results, but their implications for MFIs in Kenya have not been well researched. Hence, this research aims to fill this gap by examining the relation between board committees in MFIs' financial performance in Kenya. In general, the study added to the body of knowledge on the governance-performance nexus within the Kenyan microfinance sector while at the same time making specific policy and managerial recommendations on the contextual nature of the Kenyan microfinance environment. The study is useful in strengthening the sustainability and profitability of the MFIs to continue with the role of empowering people with financial services and contribute to the development of the economy.

Objective of the Study

The general objective of the study is to establish the effect of the board committee on the financial performance of microfinance in Kenya.

Hypotheses of the Study

H_{O1}: Board committees do not have a significant effect on the financial performance of MFIs in Kenya

Theoretical Review

Resource Dependence Theory

Resource Dependence Theory (RDT) was proposed by Pfeffer and Salancik in 1978. The theory postulates that organizations depend on valuable resources in their environment for existence and prosperity. The resource dependency theory focuses on how a diverse board might draw important resources to a company through its connections in the outside world. Paetzold, Canella, and Hillman (2000). Resource dependency theory, according to Johnson et al. (1996), focuses on appointing representatives of independent groups to obtain resources that are essential to a firm's success. Companies establish connections with the outside world through their directors and management to obtain vital resources. Directors can contribute specialized knowledge or connections to resources like funding or suppliers to the company (Heugens, 2013).

The core assumption of this theory is that an organization's or business's operations are impacted by its dependence on significant and vital resources, and that organizational choices and actions can be tailored to the particular dependency scenario (Fuzi, Halim, & Julizaerma, 2016). The theory stresses the importance of examining the context in which an organization or business functions in order to comprehend behavior and impact (Fuzi et al., 2016). Based on the fundamental tenets of this theory, several studies have used Resource Dependency Theory to examine the relationship between corporate governance and organizational performance,

including Weerink (2019), Muiruri (2018), and Li, Armstrong & Clarke (2014). A study by Hassan (2019) demonstrated that the board of directors remains an essential strategic asset for the company since it establishes constituent relationships with suppliers, decision-makers, consumers, and social groups to link the company's resources, behavior, characteristics, values, and objectives with the external environment

However, the major weakness of Resource Dependency Theory is that directors co- opting resources from outside organizations also implies double loyalties and complex allegiances (Veasey & Di Guglielmo, 2008; Campbell et al., 2012). Another criticism by Akram (2022) is that resource dependency theory is typically on its possible oversimplification of intricate organizational dynamics and its narrow emphasis on internal variables relative to external dependencies, ignoring the significance of stakeholder relationships and agency theory. The theory is relevant to this study because it portrays the board committee as a key source for obtaining information, expertise, and other resources from outside partners, a factor that affects an organization's performance. In its dimension of technical uncertainty, Resource Dependency Theory explores how resources influence power dynamics in the context of opportunities and needs throughout economic development. Therefore, the independent variable board committee anchored upon resource dependency theory.

Empirical Review

Popov's (2024) study aims to establish the effect of the board committee on financial performance in Russia. During the eight years from 2014 to 2021, the 100 largest Russian public non-financial firms were the target population. Finding patterns and trends within the sample was made possible by the preliminary overview of the data that descriptive statistics provide. The initial step of econometric modeling involves the use of OLS (ordinary least squares) fixed effect estimators and GLS (generalized least squares) random effect estimators. To address possible endogeneity concerns and offer reliable estimates of the influence of board committee features on business financial performance, the study additionally used dynamic panel data estimators using the Generalized Method of Moments (GMM). Panel data analysis results show that the board committee has a major impact on Tobin's Q and overall shareholder return.

Atty (2018) conducted a study to establish the effect of board committees on firms' financial performance in Egypt. Using a sample of 50 active non-financial Egyptian companies listed on the Egyptian Stock Exchange, the study employed a descriptive research approach over the course of three fiscal years, from 2012 to 2017. Tobin's Q, return on equity (ROE), and return on assets (ROA) were employed as stand-ins for the financial performance of the company. The study made use of secondary data that was gathered from the 2012–2017 EGX annual report book. The association between the board committee and the company's financial success was investigated in this study using regression analysis and correlation. According to the report, the board committee and the financial success of Egyptian companies are not significantly correlated.

Wafula and Miroga (2024) conducted a study to examine the influence of the board committee on SACCOs' financial performance in Trans Nzoia County. The target population consisted of five SACCOs in Trans Nzoia County. Using a descriptive research design, secondary and primary data were gathered from five SACCOs in Trans Nzoia County. The data was then analyzed and interpreted using DuPont financial ratios. Data was gathered by the researcher using census methods. Surveys that were semi-structured were used to gather primary data.

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The Statistical Package for Social Sciences version 26 statistical software was then used to examine quantitative data using both descriptive and inferential statistics. Both tables and figures were used to illustrate the study's conclusions. The study found that the financial performance of SACCOs in Trans Nzoia County is significantly impacted by board committees. According to the study, Trans Nzoia County SACCOs ought to think about growing the board committee.

Research on board committee and the financial performance is an area that has some inconsistencies. It has been pointed out that large boards raise monitoring objectives, increase responsibility, and positively influence financial performance, while on the other hand, large boards negatively impact board performance by causing a lot of ineffectiveness and delayed decisions. There is, however, scarce literature on the Kenyan microfinance sector with regard to assessing its board structure in terms of achieving the right balance between the board's monitoring and coordination roles. A further examination of board structure about its implications on financial performance in MFIs would be useful in offering a better understanding to policymakers and institution heads who may wish to improve the standards of governance in their organizations.

Conceptual Framework

The conceptual framework demonstrates how the dependent variable relates to the independent variable. The dependent variable of this study is the financial performance, which is calculated from Return on Asset (ROA), while the independent variable is the board committee.

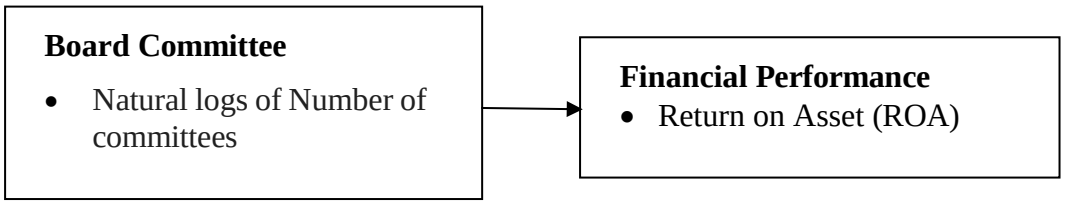

Figure 1: Conceptual Framework

METHODOLOGY

This study utilized a descriptive research design, which is appropriate for describing the nature of the variables under study and comparing their attributes and the relationships between them (Kothari, 2014; Creswell & Creswell, 2017). This study's target population included 23 registered and operational Microfinance Institutions (MFIs) in Kenya for the financial year 2020- 2024. This research adopted the census method of data collection, where data were collected from all the microfinance institutions in Kenya. The data for this study were collected from secondary sources using a secondary data collection sheet to capture the financial and governance-related data. The information was obtained from official documents like annual reports, financial statements, regulatory documents, and other publications of Microfinance Institutions (MFIs) operating in Kenya for the fiscal years 2020 to 2024. The data was imported into STATA 18 software for analysis. The software was used to generate tables, graphs, regression, statistical analysis, and other statistical parameters, and the data was entered on the data collection sheets. The study data were analyzed using descriptive and inferential statistics. The descriptive statistics included mean, minimum, maximum, standard deviation, skewness, and kurtosis. Inferential statistical tools included Pearson's correlation analysis and

the panel regression analysis. Inferential statistical methods were used to determine connections among examined variables. The study employed a panel regression model. The research was performed using hypothesis testing through t-tests alongside F-tests to establish the statistical significance of the findings and achieve robust conclusions.

The panel regression analysis model was expressed as follows.

$$Y = \beta_0 + \beta_1 X_{1it} + \varepsilon_{it} \quad \text{Equation 1}$$

Where:

Y represents Financial Performance (measured by Return on Assets)

β_0 represent the constant or coefficient of intercept

X_1 represent Board Committees

ε represents the error term.

it represents individual i at time t

FINDINGS AND DISCUSSIONS

This section presents the study's results and discussion, structured into descriptive, diagnostic, and inferential analyses.

Descriptive Statistics

The study conducted descriptive statistics to establish the influence of board committees and the financial performance of MFIs in Kenya. Table 1 summarizes the results.

Table 1: Descriptive Statistics

Statistics	Obs	Min	Max	Mean	SD	Skewness	Kurtosis
ROA	**115**	0.300	6.100	2.820	1.370	1.067	0.732
Board Committees	**115**	0.00	5.00	3.200	1.100	0.8737	2.3422

The distribution of ROA among MFIs exhibits a skewness of 1.067 and a kurtosis of 0.732. The positive skewness value indicates a right-skewed distribution, where most MFIs report ROA values clustered around the mean, but a small number achieve substantially higher returns, resulting in a longer tail on the right side of the distribution. This aligns with typical financial performance data where a minority of firms outperform the majority (Gujarati & Porter, 2009). The kurtosis value, which is less than 3, suggests a platykurtic distribution characterized by a flatter peak and lighter tails compared to a normal distribution, implying fewer extreme outliers but a wider spread around the mean (Hair et al., 2010).

Descriptive statistics of board committees as measured by the number of committees ranged from the minimum value of 0 to a maximum of 5, with an average of 3.2 committees and a standard deviation of 1.1. The minimum value of zero indicates that some MFIs have not yet established formal committees, which may limit the effectiveness of governance and oversight functions. Conversely, the maximum of 5 committees reflects the adoption of comprehensive governance structures by some MFIs, likely encompassing audit, risk, nomination, remuneration, and governance committees. The mean of 3.2 suggests that, on average, MFIs maintain multiple specialized committees, supporting effective monitoring and decision-making processes critical for financial performance.

The skewness of 0.874 indicates a moderate positive skew, meaning that while most MFIs have

around 3 committees, a smaller number have higher counts, resulting in a longer right tail in the distribution. This asymmetry reflects differing levels of governance sophistication within the sector, where some MFIs have embraced more extensive committee structures. The kurtosis of 2.342, which is slightly below the normal distribution benchmark of 3, indicates a distribution that is mildly platykurtic, with a relatively flat peak and fewer extreme outliers. This suggests that the number of committees is fairly evenly spread among MFIs, with limited concentration at the extremes.

Trend Analysis

Trend analysis was undertaken to identify meaningful patterns within the governance variables.

Trend Analysis for Board Committee

The trend analysis examined the changes in the number of board committees among MFIs in Kenya over five years, from 2020 to 2024. The results are indicated in Figure 2

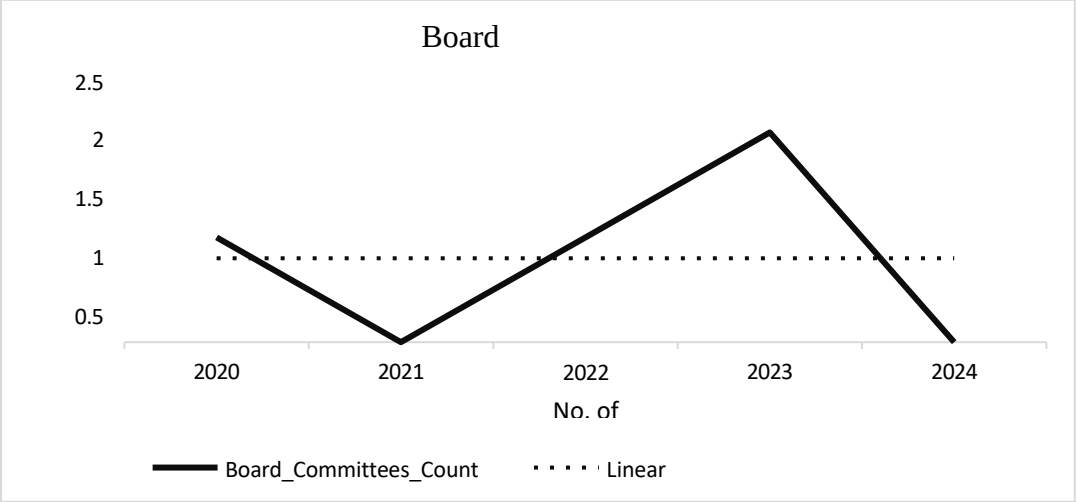

Figure 2: Trend Analysis for Board Committee

The trend analysis of board committees among MFIs in Kenya shows notable year-to- year fluctuations over the period 2020 to 2024. In 2020, MFIs recorded an average of one board committee, indicating an initial effort to strengthen governance structures through formal oversight mechanisms. This number declined sharply to zero in 2021, suggesting that some institutions suspended or dissolved committee operations, possibly due to organizational restructuring or operational challenges during the COVID-19 period. In 2022, the number of committees increased to one, reflecting a recovery phase in which MFIs began reinstating governance structures. The trend peaked in 2023, with an average of two committees, indicating the expansion of specialized committees such as audit, risk, or remuneration committees to enhance oversight and strategic control. However, in 2024, the number of board committees declined again to zero, suggesting a consolidation of governance structures or difficulties in sustaining multiple committees over time. Overall, the trend demonstrates inconsistency in the establishment and maintenance of board committees across the study period. This fluctuation implies that while MFIs recognize the importance of board committees for effective governance, sustained implementation remains a challenge. Studies including Ntim and Osei (2021) and Al-Matari et al. (2024) contend that the quantity and specialty of board committees (such as audit, risk, and compensation) boost decision-making and monitoring effectiveness, which in turn improves

organizational performance. As reaffirmed by the CBK's corporate governance principles, the 2024 surge corresponds with the increasing regulatory emphasis on risk oversight and transparency in Kenya's banking sector.

Trend Analysis for Financial Performance

The trend analysis examined the changes in the financial performance among MFIs in Kenya over five years, from 2020 to 2024. The results are shown in Figure 3

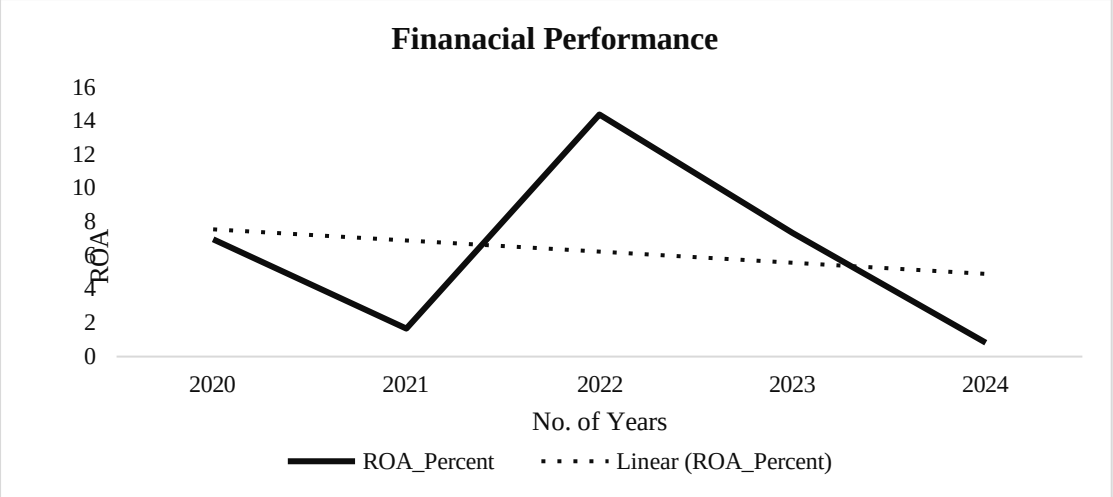

Figure 3: Trend Analysis for Financial Performance

The year-to-year trend results of financial performance measured by ROA indicate that year 2020 began with a relatively strong ROA of around 7.2%, suggesting efficient utilization of assets to generate profits despite moderate economic conditions. In 2021, ROA dropped sharply to approximately 1.8%, possibly due to pandemic-induced disruptions, increased credit defaults, and reduced lending activity. 2022 saw a significant rebound with ROA peaking at about 14.5%. This may reflect post-pandemic recovery, improved credit quality, and higher loan uptake. In 2023, the financial performance declined, posting ROA of around 9%, suggesting market corrections, rising operational costs, or macroeconomic pressures such as inflation and interest rate fluctuations. In 2024, ROA fell further to approximately 0.9%, the lowest in the five years, likely due to tightened regulation, reduced interest margins, or heightened credit risk. The linear trend line shows a gradual overall decline in ROA from 2020 to 2024, despite the short-term peak in 2022. This indicates that, structurally, MFIs' profitability has weakened over the years.

The volatility in annual ROA points to vulnerability to both internal inefficiencies and external macroeconomic shocks. The results suggest that although MFIs in Kenya can recover in favorable economic cycles (as in 2022), their long-term profitability trajectory is downward. This decline could signal strategic, operational, or regulatory challenges that, if not addressed, may threaten sector sustainability. Empirical studies align with this observed pattern. For instance, Nyabuto and Muturi (2021) found that the profitability of MFIs in Kenya is highly sensitive to macroeconomic shocks, with regulatory changes and rising loan default rates contributing to declining ROA over time. Similarly, Kiptoo (2022) established that while microfinance institutions can achieve short-term profit boosts during favorable market conditions, structural weaknesses such as limited capital buffers and reliance on narrow income

sources erode performance in the long run. International evidence from Bassem (2020) in North Africa also supports this, indicating that sustained profitability in MFIs is contingent on strong governance, portfolio diversification, and operational efficiency.

Inferential Statistics Results

Inferential statistics were employed to examine the relationship between board committees and financial performance.

Correlation Analysis

The results show that board committees ($r = 0.3584$, $p < 0.01$) have strong positive correlations with ROA, implying that a higher proportion of independent directors and more board committees improve financial performance. These results align with empirical findings by Kosgei, Sang, and Lagat (2024) and Wanjohi and Bett (2020), who found that a higher proportion of specialized board committees significantly improves financial performance among microfinance institutions in Kenya. Both studies argue that specialized committees strengthen oversight and control functions. Similarly, Muriithi and Waweru (2021) observed that committee effectiveness are key determinant of profitability in Kenyan commercial banks.

Regression Analysis

The model summary presents the degree to which board committees collectively explain variations in financial performance. The coefficient of determination (R^2) and adjusted R^2 were used to assess model fitness. Table 2 presents the model summary.

Table 2: Model Summary

Model	Multiple R	R Squared	Adjusted R Square	S.E. Regression	Obs
1	0.7423	0.5510	0.5363	0.9247	115

Table 2 shows the regression model summary indicating the overall explanatory power of board committees in predicting the financial performance of microfinance institutions (MFIs) in Kenya. The findings reveal that the model produced a correlation coefficient (R) of 0.7423, indicating a strong positive relationship between board committees and financial performance. This implies that improvements in establishing more specialized committees are associated with enhanced profitability, as measured by ROA. The coefficient of determination (R^2) was 0.5510, meaning that 55.10% of the variation in financial performance among Kenyan MFIs can be explained by board committees included in the model.

The adjusted R^2 value of 0.5363 refines this measure by adjusting for the number of predictors, confirming that the model still explains a substantial proportion (approximately 53.63%) of ROA variations even after accounting for sampling adjustments. The remaining 46.37% of variation may be attributed to other factors not captured in the model, such as macroeconomic shocks, regulatory changes, or institution-specific operational efficiency.

Analysis of Variance (ANOVA)

The Analysis of Variance (ANOVA) test was conducted to assess whether the overall regression model was statistically significant in explaining variations in the financial performance (ROA) of MFIs in Kenya. The ANOVA Table 3 presents the results

Table 3: ANOVA Result

Model	df	SS	MS	F	Sig
Regression	2	115.8721	28.9680	33.7524	0.0000
Residual	112	94.4683	0.8588		
Total	**114**	210.3404			

The results in Table 3 show that the F-statistic value is 33.7524 with a p-value of 0.0000, which is less than the 0.05 significance level. This indicates that the regression model is statistically significant, meaning that board committees have a significant effect on the financial performance of MFIs in Kenya. The outcome aligns with resource dependence theory (Pfeffer & Salancik, 1978), which explains that effective boards provide access to critical resources, external linkages, and expert advice that enhance organizational performance**.**

Regression Coefficient Result

The random effects regression model was employed to estimate the effect of board committees on the financial performance of MFIs in Kenya. The coefficient results are shown in Table 4

Table 4: Regression Coefficients Result

	Coefficient					
	B	**Std Error**	**Z-value**	**P-value**	**[95% Conf.**	**Interval**
(Constant)	-1.1352	0.5376	-2.1123	0.0347	-2.1887	0.0817
Board Committee	0.5842	0.1439	4.0605	0.0000	0.3022	0.8662

The panel regression equation based on the regression coefficient is presented as

$$Y = -1.1352+0.5842X_{1it}$$

Where ***Y*** is the financial performance of MFIs

X1represent board committee

it represents indices for individual firms at time t

Hypothesis Test Results

The findings indicate that board committees significantly and positively influence financial performance (B = 0.5842, p = 0.0000). Beta coefficient of 0.5842 implies that, holding all other factors constant, a unit increase in the number of board committees leads to a 0.5842 percentage point increase in financial performance among microfinance institutions in Kenya. Consequently, the study rejected the null hypothesis (H_{02}) and concluded that the number and functionality of board committees have a positive effect on MFIs' profitability. This supports agency theory, which posits that specialized committees enhance oversight, accountability, and transparency. The finding is consistent with Wanjohi and Bett (2020), who found that the presence of active committees improved performance in Kenyan MFIs. Similarly, Kosgei et al. (2020) and Adams and Mehran (2022) confirmed that audit and risk committees promote financial discipline and strategic control. However, Kakanda et al. (2017) cautioned that too many committees could increase bureaucracy, while Okoth and Makori (2020) found no significant effect among SACCOs, implying that committee efficiency, not just quantity, is vital.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This section r presents the summary of the study, key conclusions, and policy recommendations derived from the findings.

Summary

The objective of the study was to establish the effect of board committees on the financial performance of MFIs in Kenya. The study found that the existence and functionality of board committees had a positive and significant influence on financial performance. MFIs with more active and specialized committees, such as audit, risk, credit, and remuneration committees, demonstrated stronger governance practices and better financial outcomes. This is consistent with the agency theory, which emphasizes the importance of monitoring mechanisms in reducing information asymmetry between management and the board. Therefore, the study concludes that establishing functional and well-resourced board committees is essential for enhancing financial performance and ensuring sustainable governance within the microfinance sector.

Conclusion

The study found that the existence and functionality of specialized board committees significantly enhance the performance of microfinance institutions (MFIs) in Kenya. Active committees such as audit, risk, credit, and remuneration strengthen governance by improving internal controls and accountability. These committees ensure that financial reporting, risk assessment, and policy formulation are handled efficiently and transparently. Their specialized focus allows boards to manage complex issues more effectively and make informed strategic decisions. MFIs with well-functioning committees tend to experience greater operational stability and profitability due to better monitoring and decision-making. Therefore, the study concludes that strengthening and empowering board committees is vital for achieving effective governance and sustainable financial performance.

Recommendations

MFIs should enhance the functionality of board committees by ensuring that they are well-structured, active, and composed of qualified members with relevant technical expertise. MFIs should establish clear mandates and reporting structures for each committee to avoid overlapping roles and ensure accountability. To improve efficiency, MFIs should also adopt technology-enabled reporting tools to facilitate timely information flow between committees and the full board. Additionally, the CBK and the Association of Microfinance Institutions (AMFI) should develop standardized guidelines outlining the minimum number and type of committees that licensed MFIs should maintain, such as audit, risk, credit, and remuneration committees.

Recommendations for Policy and Practice

The CBK, in collaboration with the Association of Microfinance Institutions (AMFI), should continue strengthening governance frameworks by enforcing compliance audits and governance training for directors. Policymakers should introduce governance rating systems for MFIs to benchmark board effectiveness and encourage adherence to best practices. Finally, governance policies should be aligned with international best practices, such as the OECD Principles of Corporate Governance and the Basel Committee's guidelines on banking supervision, to ensure that Kenyan MFIs remain competitive and sustainable.

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